



# Intelligence Brief:

## September 2006 **Pakistan Report**

# Trust Clarity Strategy

Written by: John Daniele  
Contributors: Marc Shlapak



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## Introduction

Pakistan's consistent implementation of fiscal policy over the last six years has resulted in robust economic growth, particularly within the banking industry. The continued momentum of privatization and reform has further strengthened investor confidence making Pakistan a more attractive emerging market for foreign business investment. While promising, challenges still remain and should be understood prior to engaging in Pakistani markets. As a benefit to our clients, Technical Security & Intelligence Inc. has prepared the following intelligence brief to outline these areas of concern.



## Corruption in Pakistan

Since President Musharraf's military takeover of Pakistan on October 12, 1999, he has established three government organizations focused on combating corruption. Ironically, President Musharraf was able to successfully execute a bloodless military coup d'etat by securing the establishment's complicity through the use of bribery and corruption. The National Accountability Bureau ("NAB"), the Federal Investigation Agency ("FIA") and Provincial Anti-Corruption Department ("PACD") are the primary entities responsible for conducting investigative and enforcement activities. However, it is crucial to understand that while Pakistan has liberalized its economy, removed restrictions and barriers to the movement of capital and ceased all attempts to nationalize critical industry sectors, it remains a non-democratic military government. As such, the Pakistani military is extensively involved in the implementation of Pakistan's national anti-corruption strategy. In practice, this equates to the use of heavy-handed military tactics against civilian businessmen suspected of corrup-

tion; including foreigners. Individuals that are accused can be arbitrarily detained, denied access to legal assistance or contact with family and associates and are subjected to interrogation by military personnel. Overzealous investigations are not uncommon as Pakistani officials do not conduct threat and risk assessments based upon detailed observation and analysis. Rather, assessments are based upon general perceptions of a given threat, shaped by historical experience, belief and culture.

Upon examination of the NAB's Annual Report, less than one-percent of complaints filed actually result in authorized investigations. Furthermore, the majority of investigations that are undertaken relate to the activities of the previous governmental regime and their associates. Therefore it is likely that the NAB is primarily used to suppress supporters of the previous regime and maintain power and control over critical financial assets. For example, earlier this year the NAB declared that they will uncover and prosecute those individuals responsible for the sharp spike of inflation of sugar prices. The NAB's motivation is questionable given that Pakistan's crop had been cut by one-fifth due to lack of rainfall which is the direct cause of Pakistan's current sugar crisis. In fact, this was the reason cited by embassy officials for Pakistan's decision to allow the import of sugar from India.

In general, the methods and practices of corruption are ingrained in the core of Pakistani business culture. Bribery has been integrated into every component of a business process or framework. The more complex a process is, the more opportunities there are for bribery. The motivation behind corruption is influenced by a combination of economic, social and cultural factors.

From an economic perspective, Pakistan is an impoverished and underdeveloped country. Wages are often set with no regard to inflation rates and employees are led to corruption to accommodate their own basic necessities.

Also, taxes and tariffs on the import of goods remain extremely high. This policy encourages a mutually beneficial system of bribery between foreign businesses, and poorly compensated government officials and agents. However, this system of corruption has existed for several decades and has become an expectation rather than a necessity amongst mid and high level government officials.

Pakistani society also contributes to the problem of corruption which is by nature very hierarchical. This results in decision processes that are unusually bureaucratic, requiring several layers of approval. This cannot feasibly accommodate an agriculturally driven economy that requires the timely movement of certain perishable goods. Bribery then becomes critical to ensuring the smooth and expedient transaction of business.

Lastly, corruption in Pakistan is also a cultural problem. Pakistani culture places a great amount of emphasis and value in close relationships such as immediate family and relatives, tribe members, friends and neighbors. It is this network that forms the social structure of society as well as the identity of the individual Pakistani. Maintaining these bonds of loyalty becomes vitally important. Loyalty ensures trust. Therefore, nepotism and cronyism is not only accepted but encouraged within business. This structure often means that corporate placements and promotions are not always given to the most qualified individual. This results in improper management practices within most Pakistani corporations and further facilitates fraud and corruption.



## Drug Trade

Pakistan's most lucrative criminal business is the shipment of drugs from Afghanistan, specifically opium and its derivative, heroin. It has become such a critical transit point that it has been coined by smugglers as the "Golden Route". Due to the high amount of corruption that exists, it is relatively easy for smugglers to ship drugs right out of international airports or the seaports of Karachi. The traditional route that drugs travel is through Balochistan province into Iran, across the northwestern region controlled by Kurds and finally into Turkey where the drugs are further processed. Since the advent of the war in Afghanistan, drug production has increased ten-fold. In fact, the amount of drugs seized by Afghanistan's Ministry of Counter-Narcotics within the last 15-months was 6,242kg of heroin, 57,734kg of opium and 51,261kg of hashish. By Technical Security & Intelligence's calculations, this equates to a combined street value estimate of \$168 billion-dollars; comparable to the annual revenues of America's third largest energy company,

ConocoPhillips (\$167 billion-dollars). The drug trade in Pakistan rivals the size of the energy industry in America. Attempts are currently being made to legitimize Afghanistan's drug trade through the sale of opium into Europe for medical purposes. However, Afghanistan must ultimately be able to support itself and currently its only source of significant revenue remains in the illicit drug

trade. As a result, warlords that control the drug trade enjoy strong representation within the Afghan government. Pakistani officials at all levels have enjoyed the benefit of the drug trade through highly lucrative bribery deals, especially governors of rural regions. It is interesting to note that two of the most powerful Taliban commanders that are heavily involved in the drug trade operate out of Waziristan, a mountainous frontier province of Pakistan. As of September 2, 2006, President Musharraf has signed a peace agreement with commanders in the region. This signals an open-door policy on drug traffic from the region into Pakistan.







## Money Laundering

Wherever a vibrant and healthy drug trade is found, an equally vibrant and healthy money laundering economy exists. Therefore, money laundering activity in Pakistan is rampant. The problem is compounded by the fact that the majority of financial transactions in rural Pakistan are Hawala based transactions. Hawala is an alternative system of remittance that exists and operates outside of or in conjunction with traditional banking. Since the system operates on the basis of family or tribal trust between Hawala dealers and users, it is a highly effective, reliable, efficient and virtually anonymous method of moving money. It serves as an effective means of placement for money launderers. For instance, Hawala dealers might operate their own legitimate businesses and hide much of the transaction within their own remittances or use part of the money for expenses, eliminating any paper trail at all. The most common type of business involved in a Hawala money laundering operation is a complex international trading business where confusion about prices is commonplace. Invoice manipulation could be used in combination with the trade of legal goods and illegal money. Since a myriad of options are available in dispersing money throughout the Hawala transaction process, the integration of funds into legitimate investments or assets is easily accomplished. Investigators find it extremely difficult to trace the origin of

the most basic and legal form of Hawala transactions, let alone an illegal Hawala transaction where money is further layered. All foreign and domestic banks that operate in Pakistan must contend with Hawala based transactions both legal and illegal. However, this also presents a potential opportunity for foreign investors willing to establish a Hawala based bank in rural regions of Pakistan. The growth opportunity for such an endeavor is considerable.



## Political Analysis

In order to understand Pakistan's current sociopolitical environment, one must understand its history and culture. Pakistan has been throughout its history a very multicultural and multiethnic country. It has also traditionally been,

by regional standards, a very tolerant society. Although outbreaks of sectarian violence has occurred, the rise of Pakistan's first Governor-General (Muhammad Ali Jinnah), established a sense of national unity. It was this regime that implemented a secular form of government that was popular amongst Pakistan's educated elite. It was not until the years leading up to the Soviet invasion of Afghanistan that Pakistani culture began shifting towards widespread Islamic fundamentalism. The military overthrow of the Bhutto government in 1977 by General Zia-ul-Haq, signaled the end of secular rule of Pakistan. This cultural transformation was fostered by a general feeling that the Arab world had marginalized and isolated the Muslim community in Pakistan. The Islamic fundamentalists, who exerted great influence within the Middle East, believed that the only way the teachings of the Islamic Holy Book, the Qu'uran could be completely understood and fully appreciated was through knowledge of its native language; Arabic. Additionally, those converted to Islam "by the sword" were referred to as "Ajlaf" ('base' or 'lowly') and were not considered true and faithful Muslims. The Islamic revolution of Pakistan began in 712CE when the region was conquered by General Muhammad bin Qasim. Therefore, Pakistani Muslims were looked upon by the Arab world as second class Muslims. In order to achieve popular acceptance, Pakistani Muslims had to adopt the most conservative and strict interpretation of their faith. General Zia-ul-Haq, exploited this condition to attract immense financial support from the Islamic world, thereby solidifying Pakistan's future as an Islamic state. At this point, Saudi Arabia began financing religious schools in Pakistan called Madrassas. Madrassas, which promulgated a fundamentalist ideology, became a natural incubator for militants that could be mobilized against Soviet forces in Afghanistan. Even to this day, Madrassas are used to cultivate militant extremists that defend the interests of fundamentalist Islam. However, in rural Pakistan Madrassas are vital institutions that provide relief, support as well as a system of education where none exists. As a

result, Madrassas and the militant groups to which they are affiliated possess substantial political and social influence in Pakistan.



Four months prior to President Musharraf's military coup, then General Pervez Musharraf was put in charge of organizing a military offensive across the border inside the Kargil district on the Indian side of Kashmir. As part of his attack on India, General Musharraf leveraged the assistance of Islamic militants. In fact throughout his military career, Musharraf has provided support to or benefited from the assistance of Islamic militants. For example, in 2000, Pakistan's Special Services Group, a commando unit once under President Musharraf's direct command, provided training and support to the fundamentalist Taliban forces in Afghanistan. In reality, the Taliban movement itself had originated from Pakistan where its leader, Mohammed Omar studied and later taught as a scholar at a Madrassa located in Quetta. The Taliban was Pakistan's attempt at instituting a friendly government within Afghanistan. It received extensive military and financial support from Pakistan's Inter-Services Intelligence agency ("ISI").

President Musharraf's support of the Taliban and other Islamic militant groups ended when pressured by the United States to participate in its "War on Terror". President Musharraf seized the opportunity to push forward Pakistan's economic recovery by accepting millions of



dollars in financing in return for military cooperation. This move had angered many of President Musharraf's previous supporters and lead to four assassination attempts on his life. In addition, a new militant opposition party called Muttahida Majlis-e-Amal ("MMA") has been formed and is gaining widespread support throughout Pakistan. MMA now controls over five percent of Pakistan's National Assembly. However, their influence and base of support is quite expansive and should not be underestimated. As a result, President Musharraf has been forced to grant several concessions to Islamic militants in Pakistan, as evidenced by the September 2, 2006 peace treaty with the Taliban in Waziristan.

If President Musharraf continues to promote a moderate and pro-Western foreign policy, his control over Pakistan will be placed increasingly at risk. Therefore, the political environment within Pakistan today is considered quite unstable. The very real possibility exists that President Musharraf will either resort back to his full support of Islamic extremism, or his regime will be toppled through his assassination by elements within his own government. TSI does not believe that Musharraf will be able to sustain the delicate balance between supporting Islamic fundamentalism and supporting Western interests in the region.



### Terrorism and Security

Since the late fifties, Pakistan has cultivated an environment of militancy and terror. To compensate for their lack of strategic and military depth in comparison to its neighboring enemy, India, Pakistan has used terrorism as a force equalizer. Pakistan's premier intelligence agency, Inter-Services-Intelligence, has provided material, financial and logistical support to emerging militant groups and continues to do so today. It has instigated several terrorist attacks against Indian interests since the 1980s such as airplane hijackings and bombings. Despite President Musharraf's seemingly friendly advances towards India, the Islamic militant groups that he had supported continue to wage an insurgency in Indian held Kashmir. Today, these extremist groups have garnered large-scale support from Pakistani society. Of the tribal based groups that exist, many are now seeking varying degrees of independence from Pakistan. Due to President Musharraf's participation in the "War on Terror", his military government is beginning to lose control over vast areas of his country. Many groups are forming political alliances and seeking control over Pakistan's National Assembly. This further represents the "Islamization" of the Pakistani state and may serve as indicators of an oncoming Islamic revolution rooted in extremism. The following is a regional breakdown of current terrorist and criminal activity in Pakistan:

**BALUCHISTAN:** A Province in the west of Pakistan bordering Iran and Afghanistan. The capital city is Quetta. The population is predominantly Baluch in the south and Pashtun in the north. In Quetta and the countryside, bombings, sabotage and riots are taking place throughout the province over the recent death of Nawah Akbar Bugti by Pakistani government forces. He was the chief of the Bugti tribe, Baloch leader and former Governor and Chief Minister of Balochistan. Hundreds have been arrested.

**WAZIRISTAN:** A part of the area known as the Federally Administered Tribal Areas. It borders Afghanistan and is in the west of Pakistan. There is a large Pashtu speaking population. Local Taliban virtually controls the entire state. War has been going on with the Pakistani army for over 3 years. The government of Pakistan has suffered many casualties due to roadside bombs and ambushes. The government has negotiated a peace treaty with the militants as of September 2, 2006. This peace treaty will complicate matters for the Nato lead war in Afghanistan, as the militants are provided safe-haven and resupply from local Waziri tribesmen. President Musharraf has displayed limited capability and interest in stopping the influx of militants from Afghanistan into Pakistan. Aside from local Taliban and tribal forces there are over 25,000 jihadi activists operating from HuM ( Harkat-ul-Mujahideen ), HuJI ( Harkat-ul- Jihad-al- Islami), LeT ( Lashkar-e-Toiba ), JeM ( Jaish-e- Mohammed ). Afghan Taliban and Al-Qaeda forces have been sheltering in areas controlled by the Wazirs, Mehsuds and Dawars.

**NORTH WEST FRONTIER PROVINCE (and other Tribal areas):** This area is in the northwest of Pakistan and also borders Afghanistan. It's predominantly Pashtun controlled. The Pakistani government has been granted nominal "symbolic" control over the region. However, there is an ongoing guerilla war with local militants. Taliban influence over NWFP is increasing. Battles have taken place very recently between local militants in the Tirah

valley of the Khyber Agency ("district"). The two groups involved are Ansaarul Islam based in Maidan and Lashkar-I-Islam based in Gogrina.

**SINDH PROVINCE:** Lies in the south east of the country and borders India. The population is Sindhi and the capital is Karachi. There is also a large Urdu speaking population. Sindh province is home to a very healthy kidnap for ransom industry. Any travel should be accompanied by bodyguards. Professional criminal organizations are perpetrators of these crimes and only negotiate ransoms with the local government directly. The victims are generally not maltreated.

**KARACHI:** Karachi is the economic and commercial capital of Pakistan and is located within Sindh Province. Karachi is one of the most dangerous cities in the world. Currently it is under a sabotage alert. Activity includes arson of government buildings, regular bombings, carjackings, murders and kidnap for ransom operations (by both professional criminal organizations as well as terrorist groups). A very high crime rate in this city exists. From time to time there are outbreaks of sectarian violence between various groups.

**LAHORE:** This city is the capital of Punjab and borders India. A few bombings take place from time to time, usually sectarian related. Kidnap for ransom occurs by both professional criminal organizations as well as terrorist groups. Overall, Lahore has a very high crime rate.

**ISLAMABAD:** Islamabad is the capital city of Pakistan. It is a relatively safe city to operate in due to the high level of security.

**RAWALPINDI:** Rawalpindi is a major city located in north Punjab. There are occasional bombings that occur due to sectarian violence.





## Terrorist Organizations

The following is a list of terrorist organizations that operate in and are supported by Pakistan:

Lashkar-e-Omar (LeO)

Hizb-ul-Majahideen (HM)

Lashkar-e-Toiba (LeT)

Jaish-e-Mohammed Mujahideen E Tanzeem (JeM)

Harkat-ul-Mujahideen (HUM)

Lashkar-e-Omar (LeO)

Hizb-ul-Majahideen (HM)

Lashkar-e-Toiba (LeT)

Jaish-e-Mohammed Mujahideen E Tanzeem (JeM)

Harkat-ul-Mujahideen (HUM)

People's League

Muslim Janbaz force

Al Umar Mujahideen

Mahaz-e-Azadi

Islami Jamat e Tulba

People's League

Muslim Janbaz force

Al Umar Mujahideen

Mahaz-e-Azadi

slami Jamat e Tulba



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Al-Badr

Jamiat-ul-Mujahideen (JuM)

Lashkar-e-Jabbar (LJ)

Harkat ul-Jihadi-i-Islami (HuJI)

Al Barq

Tehreek-ul-Mujahideen TUM)

Tehrik-e-Jafria

Sipah e Mohammed Pakistan (SMP)

SSP

Lashkar e Jangvi (LeJ)

Mohajir Quomi Movement (MQM-A)

Al Jihad

Jammu & Kashmir National Liberation Army

Jammu & Kashmir Students Liberation Front

Ikhwan-ul-Mujihideen

Islamic Students League

Tehrik-e-Hurriyat-e-Kashmir

Tehrik-e-Nifaz-e-Fiqar Jafaria

Al Mustafa Liberation Fighters

Tehrik-e-Jehad-e-Islami

Muslim Mujahideen

Al Mujahid Forces

Tehrik-e-Jehad

Islami Inquilabi Mahaz

Taliban

Various Tribal Groups